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CEE office markets:

Improving fundamentals but patience required

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Max Martin

- Pricing in CEE real estate markets has corrected in line with Western European markets. The liquidity in transaction markets has not yet recovered substantially, while funding for development remains limited.
- Transaction volumes are now more evenly split between office, retail, and logistics. Retail became the largest traded asset class in 2024, and alternative sectors (hotels, residential, student housing) are gaining importance.
- Property yields in CEE have shifted up by 150+ basis points since the Ukraine war, but the adjustment has been gradual. Prime office yields are generally between 6% and 8%, with Prague below 6%.
- Demand for office space is expected to be underpinned in the coming years by strong economic growth. CEE economies are likely to be the leading growth in Europe.
- Due to strong supply expansion in the past some cities in CEE, above all regional Polish cities, saw large increases in vacancy rates. We see a supply collapse in the coming years.
- This should underpin rental growth. The demand has also shifted in CEE towards energy efficient properties, and we continue to expect strong rental growth for this sector going forward.
- We have a positive outlook on Prague, Bucharest, and Warsaw. However, we currently urge caution regarding Budapest, due to political uncertainties.
- In summary, higher yields and a favorable supply-demand balance are likely to support the market outlook for the region. Nevertheless, patience is required, as we do not expect a V-shaped recovery. It will take time for capital to return and for market liquidity to improve.

Real estate markets in Europe have been currently going through a phase of weakness since mid-2022. Property values have corrected in Western Europe by 20%–40%, and transaction volumes are only slowly recovering. When there are plenty of cheap real estate options, why should investors look at CEE?

In this paper, we discuss this question. Zoltan Szelyes (at the time in his role at Credit Suisse), 20 years ago, already authored a white paper on the region in 2005 and has since been following the prospects of a region that is otherwise very sparsely covered by research houses.
Liquidity in the European real estate markets remain limited. There is a lack of capital being allocated to core real estate and the capital that is currently seeking opportunities is focused on core countries, which have now also undergone a correction in net yields. This means that Eastern Europe, which is also strongly influenced by cross-border flows, continues to lag in the recovery.
We continue to believe that the supply demand balance is one of the more attractive we have seen in recent years in the region and demand is likely to supported by strong economic growth.

Here, we are highlighting high level aggregated trends over the regions as well as special pages for the most liquid markets.

The macro picture

CEE once again finds itself, as it has many times throughout its history, at the border of geopolitical confrontations. The abrupt start of the war in Ukraine reminded many of this role, which had been forgotten by some. Inflation increased much more sharply in some CEE countries compared to Western Europe, as their economies had relied on cheap materials and oil from Russia. In the meantime, these economies have readjusted to the new situation and, as most economists expect, are likely to outperform the European average once again.

Table 1: Real GDP growth p.a. (consensus estimates)

	2023	2024	2025E	2026E
Germany	-0.3	-0.2	0.2	1.1
France	1.4	1.2	0.5	0.8
Italy	0.7	0.7	0.5	0.8
Netherlands	0.1	1.0	1.3	1.1
Portugal	2.6	1.9	1.9	1.8
Spain	2.7	3.2	2.4	1.8
Sweden	0.1	1.0	1.5	2.1
Switzerland	0.7	1.4	1.1	1.4
UK	0.4	1.1	1.1	1.2
Eurozone	0.5	0.9	1.0	1.1
Poland	0.2	2.9	3.3	3.2
Romania	2.4	0.8	1.6	2.5
Hungary	-0.9	0.6	1.4	3.0
Czech	0.0	1.1	2.0	2.3

Source: Bloomberg, Macro Real Estate, as of July 2025

The intensifying geopolitical confrontation also means that the centre of gravity in Europe is shifting further east. In particular, Poland's role is becoming increasingly important. Romania, too, finds itself once again at the centre of renewed interest due to its strategic location, as we saw during the volatile election period earlier this year, which was targeted by external influences from both Russia and Brussels.

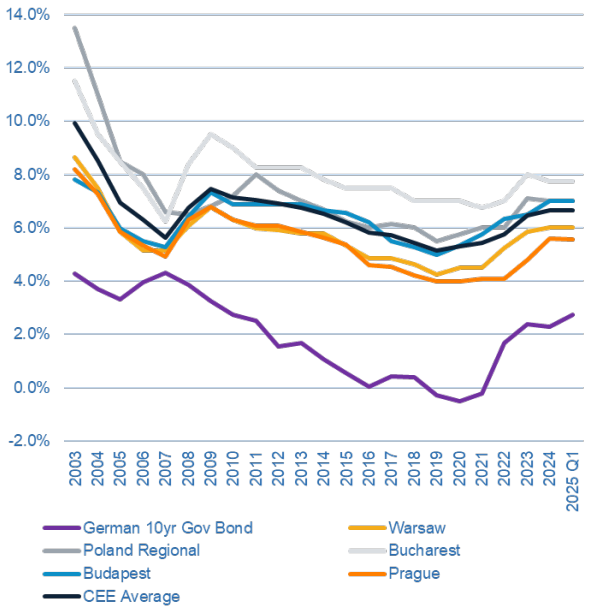
As figure 1 highlights the economic consensus is positive on the economic growth in the region. The region is likely to outperform the European average by a wide margin. The rather high growth rates are driven by different effects. Geopolitics remains an important driver, as the public investments into defence and infrastructure remain high. This leads also to wage growth and a solid picture for corporate investment and private consumption.

The robust growth picture should underpin the demand for real estate space. Both residential as well as commercial markets are likely to again see more elevated demand.
The negative side effect is certainly that inflation rates are also expected to rise in the coming years at somewhat higher levels, on average between 3%-4% p.a. for 2025 and 2026. Commercial real estate that also offers indexation to the CPI should also work in CEE as part of an inflation hedge going forward.

Property yields shifted upwards by 150+ bps

Yields have seen an increase in the wake of the Ukraine war and higher inflation in 2022 and 2023. But in contrast to the aftermath of the GFC, when a sharp repricing of CEE real estate was accompanied by capital flight from the region, the adjustment to higher yields is mow much more gradual.

Figure 1: Net prime office yield in %



Source: Various brokers, Macro Real Estate AG

Compared to Western Europe we even observed similar or lower shifts in cap rates. The situation has stabilized somewhat since, but – like Western Europe we haven't seen any turnaround in cap rates trends yet.

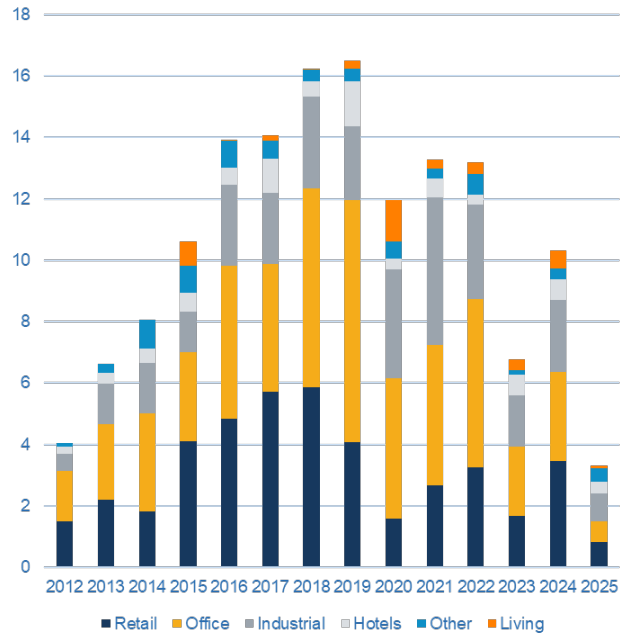
Prague, the most core type of office market in CEE has the lowest prime cap rates at sub 6%, while most cities are trading between 6% and 8%. As prime real estate prices, valuations and rents for the larger office leases are denominated in EUR, we also highlight the movement of German 10y government bond yields. They have fluctuated this year between 2.4% and 2.7%.

Capital market trends in other sectors

Even though office remains a strong starting point and continues to be a focus for many investors, transaction volumes are now more evenly distributed across the office, retail, and logistics sectors. As Figure 3 highlights, retail assets became the largest asset class traded in 2024. Shopping centre yields are somewhat higher, ranging between 6.0% and 8.5%, while logistics yields fall between 5.5% and 7.5%.

Alternative sectors such as hotels and residential assets have also continued to gain importance. In Poland, for example, we are seeing the emergence of rental apartments and student housing in a market that was previously dominated by owner-occupied properties.

Figure 2: Transaction volumes for CEE in bn EUR



Source: CBRE, Macro Real Estate AG

Rollercoaster ride in office vacancy in many cities

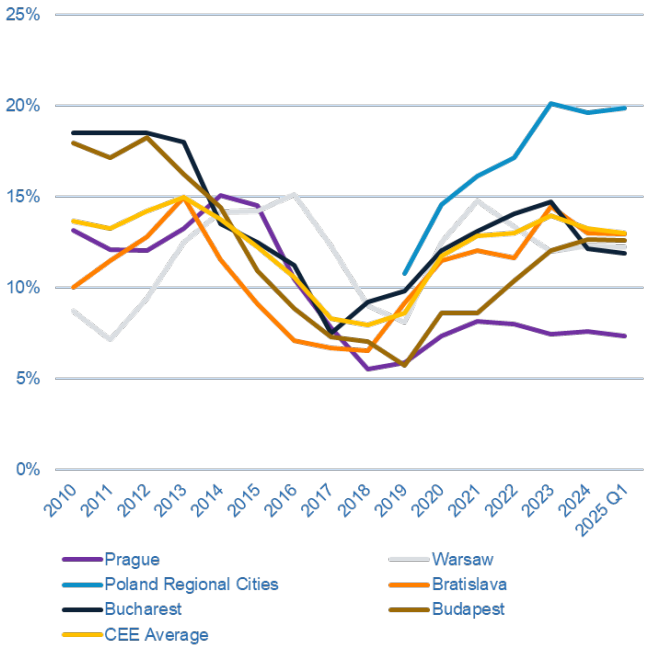
Many office markets in CEE have been characterized by a booming demand in the second half of 2010. This has led to some surging supply, that has been mostly seen in the Polish regional cities, such as Wroclaw, Lodz etc.

Unfortunately, the post-Covid economic recovery has been sluggish, further weakened by the disruptive impact of supply chain realignment following the decoupling from Russia.

So, the higher supply has met a lower demand. The result being rising vacancy rates.
However, as we see there are sharp local differences. The evolution in Prague was rather stable, also because of more limited construction activity. In Warsaw and Bucharest, vacancy rates have already peaked but have remained at rather high levels.

Beneath city level averages, we also have seen the following: Prime submarkets saw continued tightening, while secondary and older buildings experienced persistent softness. Average city-wide vacancies ranged from 4.6% in Prague to over 17% across Regional Poland cities, reflecting the market's bifurcation. Occupiers are gravitating towards efficient, flexible, and centrally located buildings that meet ESG standards. Obsolete stock in peripheral areas continues to lose appeal and risks being repurposed or demolished if not upgraded.

Figure 3: Office vacancy rates



Source: Various brokers, Macro Real Estate AG

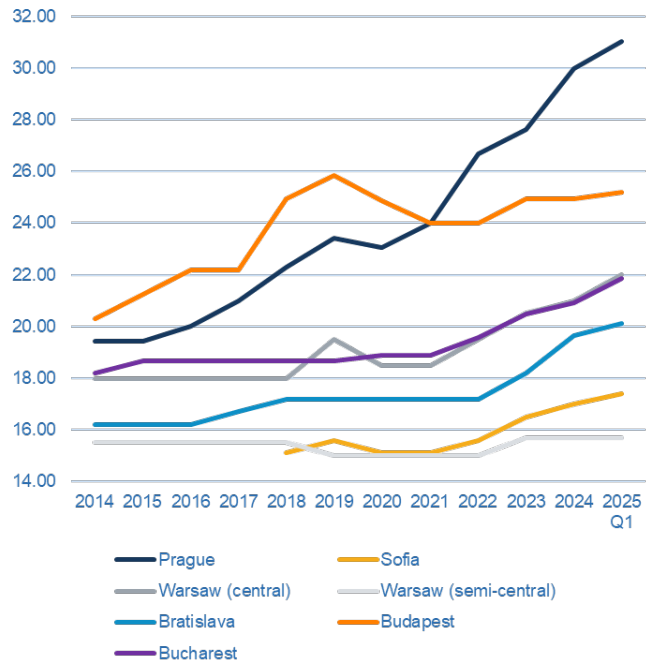
Rise of prime rents

Prime headline rents recorded modest increases in most markets (see figure 5), driven by limited new supply and tenant demand for high-quality space. Warsaw and Prague recorded CBD rents of around €29–30/sqm/month respectively, while also dominating in rental growth, while secondary cities and non-core submarkets remained below €20.

Bratislava and Sofia, saw good growth for non-dominant markets, as quality space became scarcer. Incentives such as rent-free periods or fit-out contributions remain common but are shrinking in prime locations due to stronger competition among tenants.

As we highlighted over the last decade Prague is leading in terms of growth with an annual rental growth of around 5% p.a. Other markets, such as Bucharest and Warsaw, saw prime rents grow at around 2% p.a.
In Budapest we saw some strong increases until 2019 but recently the market, as well as the Hungarian economy, has underperformed.

Figure 4: Prime office rents



Source: CBRE

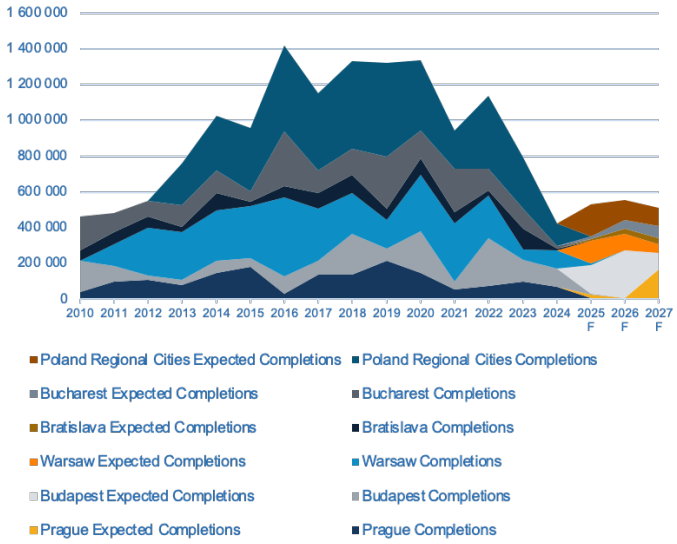
Lowest supply outlook seen for years

The growing importance of ESG-compliant space has made traditional supply-demand-vacancy rate analysis more challenging than in the past, as the performance gap between grade A and grade B offices has widened. Nevertheless, supply remains a crucial factor. In markets such as Warsaw and other Polish regional cities, overbuilding in the mid-2010s was a key reason why investor performance was rather disappointing. The increase in supply kept rental growth in check. Initially, returns were driven by cap rate compression, but when this trend reversed, performance plummeted, and capital growth turned sharply negative.

As highlighted in Figure 5, the current situation is markedly different: we are now experiencing a collapse in new supply and expect only very limited stock growth in the coming years. Most new supply is either pre-let or designated for owner-occupation, with speculative completions becoming rare. Across CEE, developers are reluctant to build without significant pre-commitments, due to high construction costs, rising interest rates, and stricter ESG requirements.

With demand increasingly focused on newer assets, landlords of obsolete stock face mounting pressure to refurbish or repurpose their properties to avoid prolonged vacancies. We believe that this limited supply, combined with a rebound in economic growth, is likely to result in lower vacancy rates and positive rental growth for the coming years.

Figure 5: Office completions in sqm



Source: CBRE

Summary: Repriced yields and collapse of supply offers a good value proposition

As demonstrated in this aggregated analysis, CEE office markets are characterized by diverse trends. The Prague market has shown the greatest stability in rental supply, whereas historical overbuilding in Polish markets has led to some challenging periods.

In recent years, the war in Ukraine has impacted the region through surging inflation and rising construction costs. This has also triggered a repricing of yields across CEE markets. However, this repricing has largely mirrored developments in Western Europe and does not resemble the chaotic capital flight experienced by Romania and other markets in the aftermath of the GFC.

Investors considering office market investments in CEE are now compensated with somewhat higher yield levels. At the same time, the rental cycle appears more favourable, and we believe it is reasonable to expect some positive rental growth. In general, investors could gain exposure through a diversified basket of investments across the CEE region. For those preferring a more focused approach, we have a positive outlook on Prague, Bucharest, and Warsaw. However, we currently urge caution regarding Budapest, where political risks could further materialize and negatively impact growth. Some regional Polish cities continue to experience higher vacancy rates, and we expect them to lag in the office market recovery, although they may present interesting opportunities for residential or hotel investments.

Individual CEE Office Detailed Market Comments

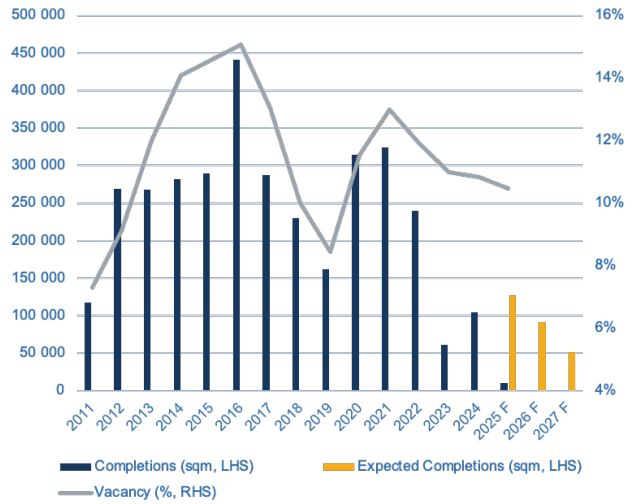
In this section we cover the individual market dynamics of each country's most prominent city and provide some more detailed comments.

Poland: Warsaw

Supply: Modern office stock in Warsaw remains concentrated in the central zones, with limited activity on the city's outskirts. Only 6,000 sqm was delivered in Q1, reflecting a broader trend of cautious development. However, significant projects remain on the horizon, including The Bridge (47,000 sqm), Office House (28,000 sqm), and V-Tower (28,000 sqm), all scheduled for later in 2025.

Approximately 227,000 sqm is currently under construction, with pre-leasing at 24%, demonstrating continued tenant caution and developer risk aversion.

Figure 6: Office Completions in sqm against Vacancy in %

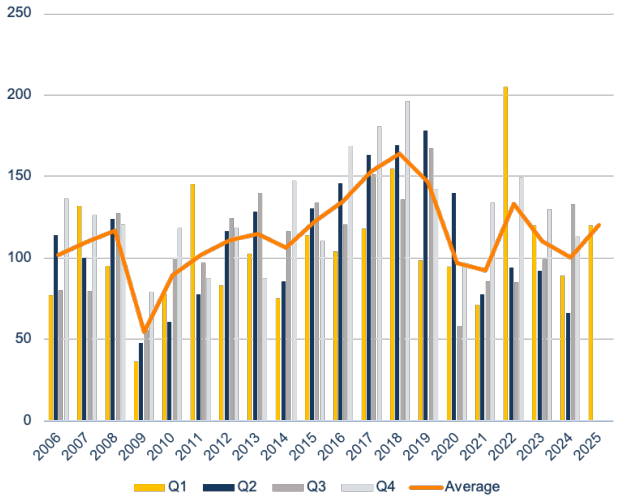


Source: JLL, CBRE

Demand: Net demand reached 120,000 sqm in Q1, though net absorption was negative at -10,000 sqm due to tenants vacating older buildings. Demand is increasingly centred around high-quality, ESG-compliant assets in the City Centre and CBD.

Key leasing drivers include space consolidation, lease renegotiation for flexibility, and occupational cost efficiency. Occupiers are prioritising modern designs, sustainability certifications, and proximity to public transport.

Figure 7: Take-up Level (Net demand totaling in 000' sqm)

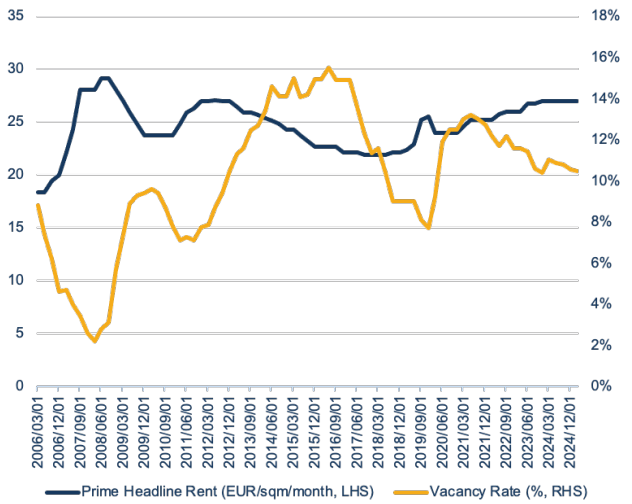


Source: CBRE

Vacancy and Rents: City-wide vacancy fell to 10.5%, with strong performance in the CBD (7.4%) due to limited quality supply. In contrast, non-central zones saw vacancy rise to 13%, especially in outdated buildings.

Prime rents increased to €28.50/sqm/month in central areas, supported by robust demand and minimal completions. Secondary locations achieved €18.50/sqm/month, though landlords often offer generous incentives to secure long-term leases.

Figure 8: Prime Headline Rent in EUR against Vacancy in %



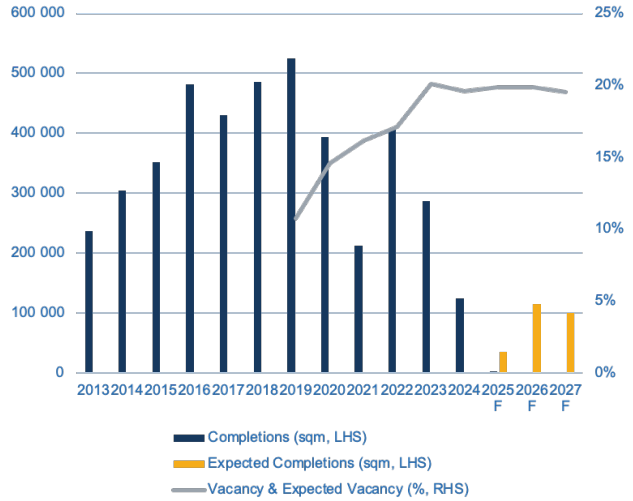
Source: CBRE

Poland: Regional Cities

Supply: Regional hubs such as Kraków, Wrocław, Gdańsk, Łódź, and Poznań are facing a historic low in new deliveries, with just 2,400 sqm added in Q1 2025. The full-year forecast of 35,000 sqm represents the weakest construction cycle in almost 20 years.

Developers remain cautious, constrained by higher interest rates, financing challenges, and a lack of strong pre-lease agreements. The pipeline of 214,800 sqm under construction is heavily weighted toward later stages of delivery (2026–2027) and is primarily concentrated in mixed-use urban regeneration schemes. Speculative development is virtually non-existent outside of top-performing city cores.

Figure 9: Office Completions in sqm against Vacancy in %

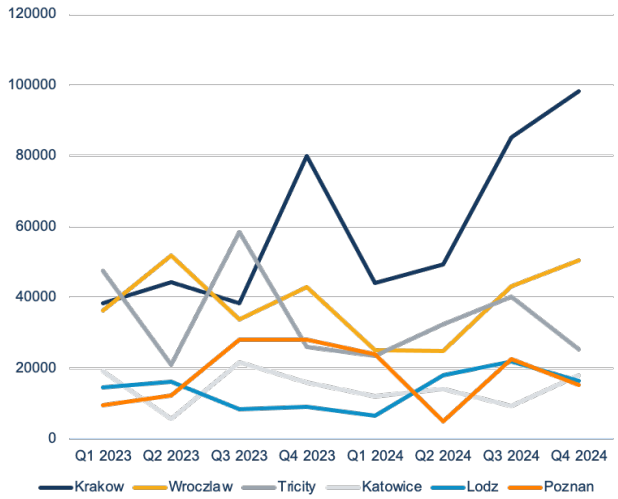


Source: JLL, CBRE

Demand: Despite constrained supply, leasing rebounded to 176,900 sqm in Q1, a 27% YoY increase. This marks a return to pre-pandemic performance and underscores tenant appetite for flexible, well-located office environments. Net absorption was a healthy 65,700 sqm.

Tenant activity was broad-based but strongest in the IT, BPO, and shared services sectors. Expansion deals made up 8% of all leases, suggesting renewed growth in corporate operations. Tenants continue to consolidate operations and reconfigure space to support hybrid work strategies.

Figure 10: Take-ups by Polish Regional City in sqm



Source: BNP, JLL

Vacancy and Rents: Vacancies averaged 17.5% across regional markets, though this varies considerably: Kraków, Gdańsk, and Wrocław are more resilient, while cities like Łódź and Katowice report elevated vacancy above 20%.

Obsolete stock remains a drag on occupancy, with landlords increasingly exploring alternative use cases such as PRS conversions. Asking rents range from €11.00 in peripheral districts to €18.50/sqm/month in centrally located Class A buildings. Rents are holding steady or rising modestly, particularly in buildings with strong green credentials or in demand-driven micro-locations.

Hungary: Budapest

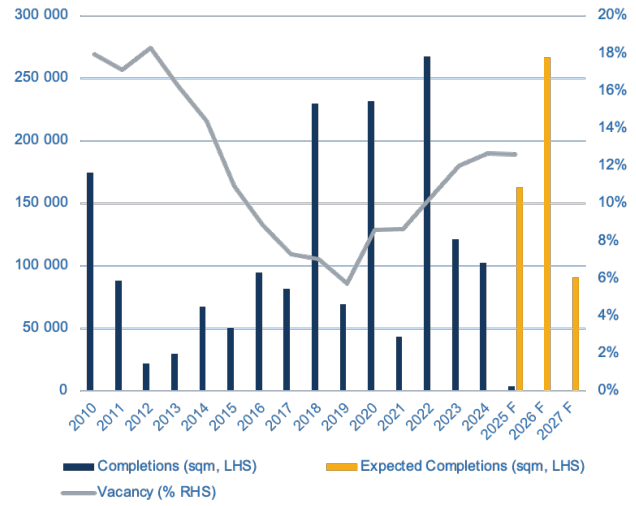
Supply: Although over 500,000 sqm is currently under construction, actual new supply remains limited in the near term. Only 5,060 sqm was delivered in Q1 2025, and completions for the full year are expected to remain under 40,000 sqm, the lowest annual total in over a decade. Most ongoing projects will only be delivered in 2026 or later.

Developers continue to delay starts until higher pre-let thresholds are achieved, especially given Hungary's high-interest rate environment and volatile economic backdrop. Planned completions such as Baker Street II and H2Offices Phase 2 are expected to enter the market in 2026 and beyond. Refurbishments of outdated assets are on the rise, especially for repositioning to residential or hotel use.

Demand: Leasing activity reached 93,000 sqm in Q1, with net new leases (excluding renewals) increasing 21% YoY to 51,000 sqm. Corporate tenants from the IT, legal, and life sciences sectors drove leasing in the Váci Corridor and South Buda.

Central locations remain attractive due to connectivity and employee accessibility. Negative net absorption of -11,500 sqm reflects lingering churn from older stock being vacated or repurposed. There is a continued focus on re-sizing, with many occupiers reducing footprints while upgrading to higher quality space.

Figure 11: Office Completions in sqm against Vacancy in %

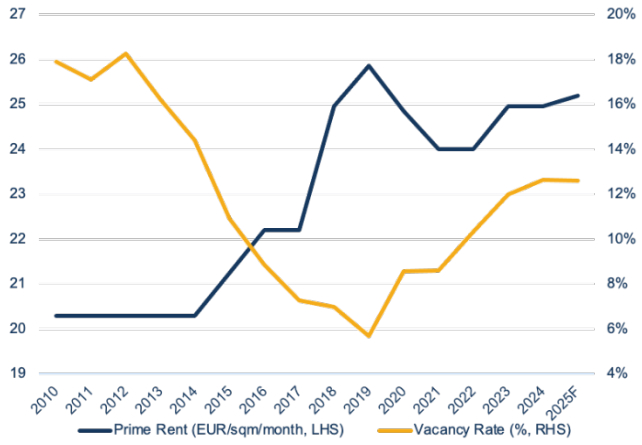


Source: CBRE

Vacancy and Rents: Overall vacancy remained unchanged at 12,6%, with stark differences between zones. Core submarkets such as Central Buda (7.8%), North Buda (8.0%), and the CBD (10.5%) are nearly fully let, while peripheral markets like South Pest face vacancy rates exceeding 25%.

Prime rents reached €25.25/sqm/month, and incentives are shrinking in top-tier assets. Average net asking rents increased to €14.85/sqm/month. ESG-compliant buildings command rent premiums and attract most of the relocation-driven demand.

Figure 12: Prime rent in EUR against Vacancy in %

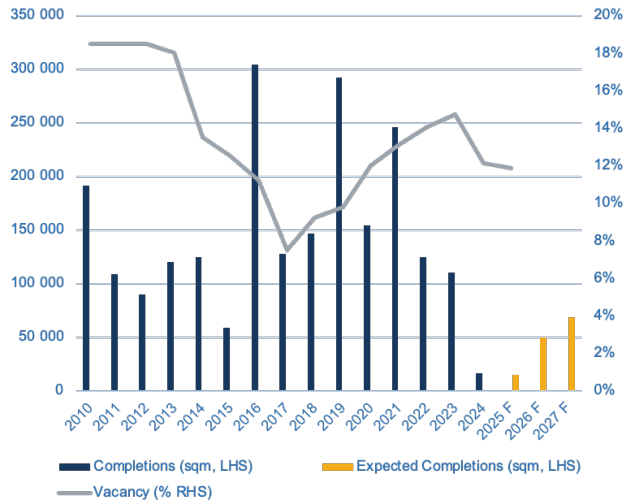


Source: CBRE

Romania: Bucharest

Supply: Supply remains constrained, with just 16,500 sqm delivered in 2024 and only 6,000 sqm planned for 2025, all of which is already pre-leased. Developers are largely on hold due to construction cost inflation, tenant caution, and financing constraints. This tight pipeline is contributing to improving fundamentals for existing prime assets.

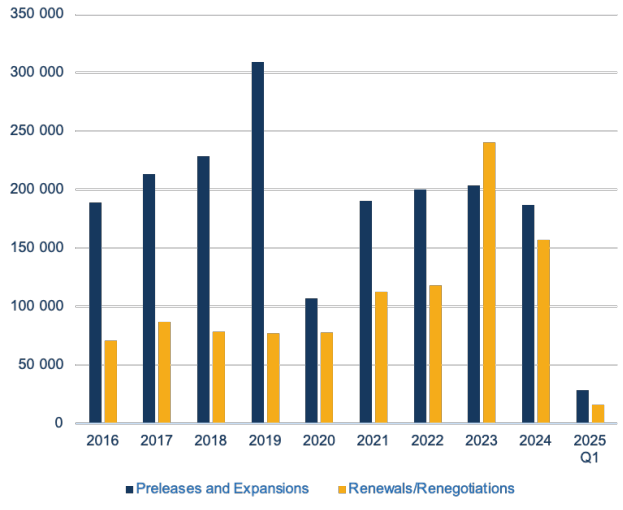
Figure 13: Office Completions in sqm against Vacancy in %



Source: CBRE

Demand: In 2024, total leasing activity reached approximately 338,600 sqm, with 116,000 sqm attributed to net-positive demand. While this represents a 25% decline from the 2023 peak, it still exceeds the long-term average from 2016–2021. The market continues to be driven by renewals, flight to quality, and the ongoing return to office. Preleases and expansions remain healthy, and ESG-certified buildings are outperforming legacy stock in both occupancy and lease duration.

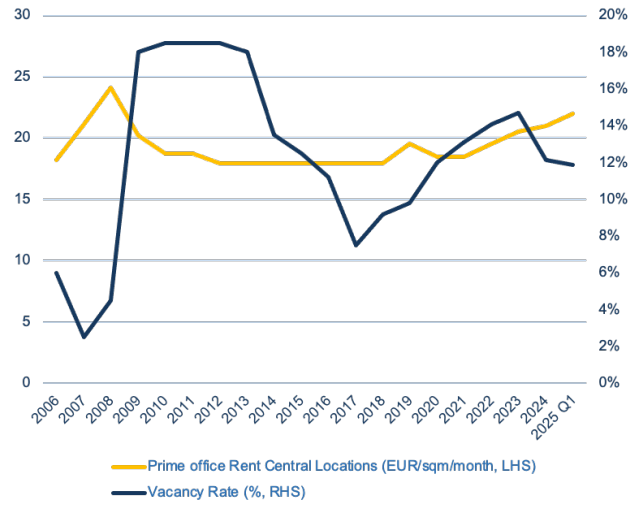
Figure 14: Office Take-up Pre-leases in sqm



Source: ESOP

Vacancy and Rents: Vacancy dropped from 15.5% to 13% in 2024, the lowest level in five years. Prime rents in the CBD remained steady at €22/sqm/month, with notable upward pressure in well-located submarkets. Incentives have begun to shrink for top-tier properties due to stronger demand and limited competition from new supply.

Figure 15: Prime Office Rent in EUR against Vacancy in %

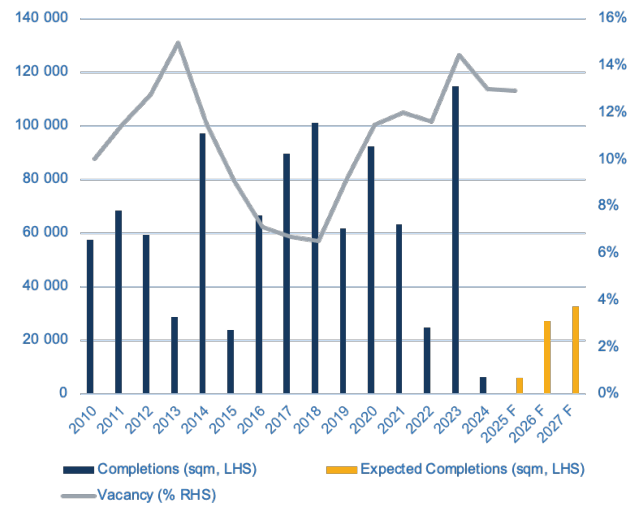


Source: Diverse brokers

Slovakia: Bratislava

Supply: No new completions were recorded in Q1 2025, continuing a low-supply environment. The Dunaj project by CTP (6,000 sqm) remains the only addition expected in 2025. The total development pipeline exceeds 85,000 sqm through 2027, with key projects including the Istropolis Atrium (mixed-use redevelopment) and Ganz House. Most of this pipeline is pre-committed or targets owner-occupation. Developers remain highly selective, prioritising urban regeneration, ESG certification, and strong anchor tenants.

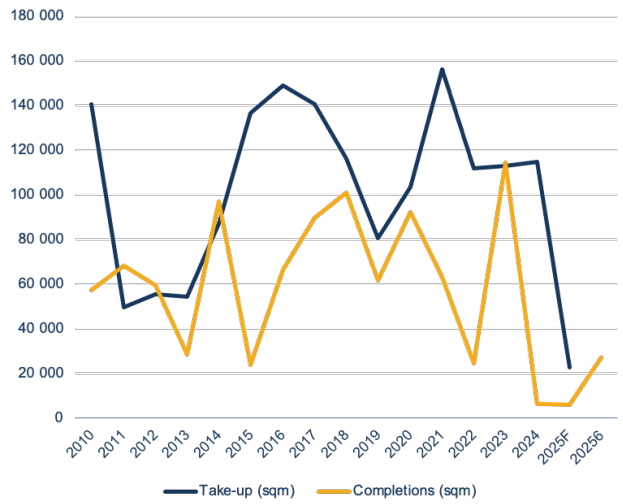
Figure 16: Office Completions in sqm against Vacancy in %



Source: CBRE

Demand: Total leasing activity reached 62,847 sqm in Q1 2025, up 36% year-on-year, reflecting resilient occupier demand amid historically low new supply. Activity was led by consumer goods (30%), finance (22%), and IT (18%) sectors, all favouring centrally located A-grade stock. Approximately two-thirds of leasing was for renewals, as tenants opted to renegotiate or upgrade within existing buildings. While international firms continue to drive most large leasing activity, domestic companies have increased their share in the sub-1,000 sqm range.

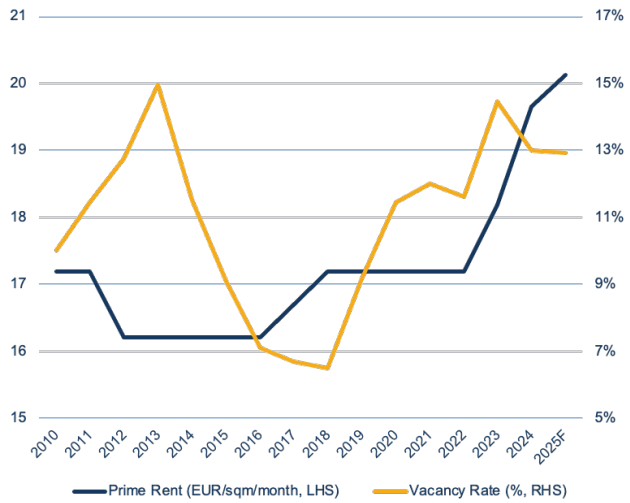
Figure 17: Take-up against Completions in sqm



Source: CBRE

Vacancy and Rents: The vacancy rate decreased slightly to 12.63%, with Grade A buildings performing significantly better. Prime rents grew 8.1% YoY to €20/sqm/month in top central locations such as Staré Mesto and Nivy. Average city-wide rents held at €15.50, supported by limited new supply and resilient occupier demand. Incentives remain in place but are becoming more tailored, offering shorter lease terms, flexible expansion rights, or bespoke fit-out packages.

Figure 18: Prime Rents in EUR against Vacancy in %

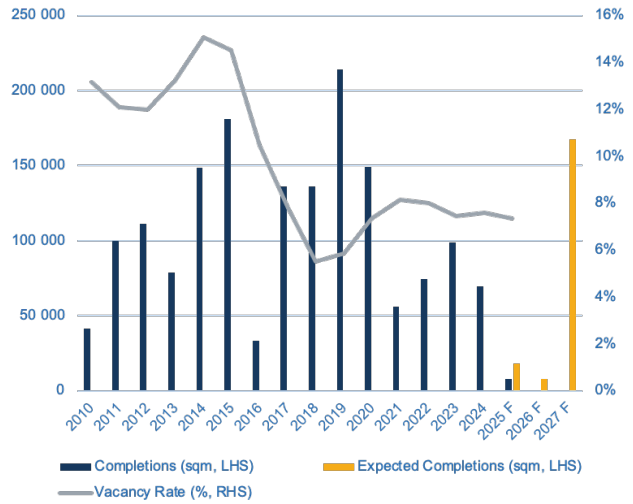


Source: CBRE

Czech Republic: Prague

Supply: Prague remains one of the tightest office markets in the region. Only 8,700 sqm was delivered in Q1 (E-Factory Phase I). Just 17,900 sqm is due for the rest of 2025. Of the 173,100 sqm currently under construction, 119,200 sqm (Smíchov City) is owner-occupied. Speculative supply is minimal, and availability of Grade A space is limited.

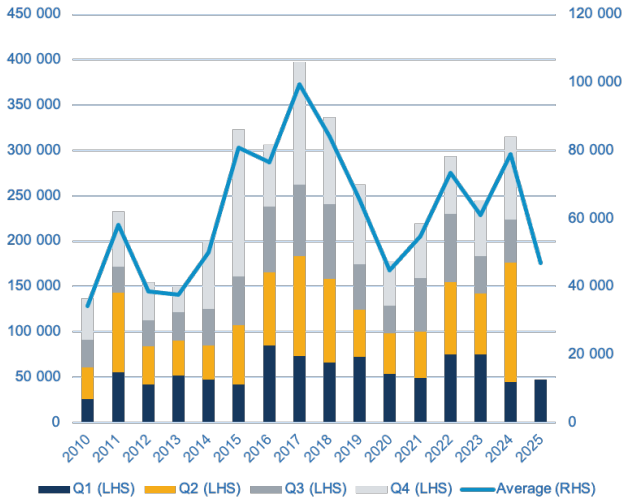
Figure 19: Office Completions in sqm against Vacancy in %



Source: KF Research & Prague research Forum

Demand: Leasing totalled 87,700 sqm in 2024, with 47,900 sqm of new leases. Tech, finance, and professional services sectors dominated demand. Occupiers are increasingly focused on flexible layouts and central locations that support hybrid working and employee retention.

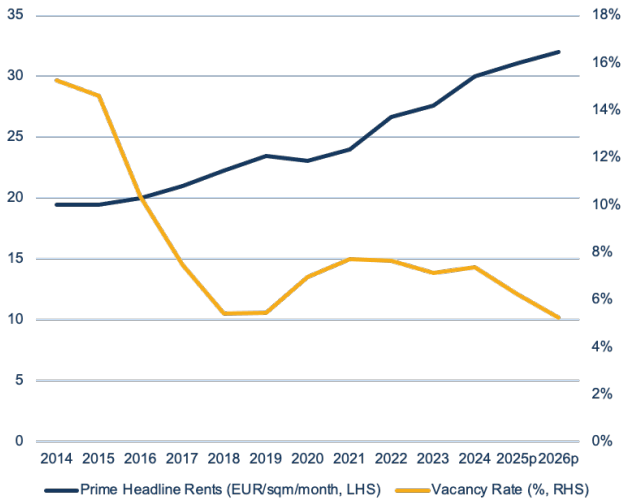
Figure 20: Office Take-ups in sqm



Source: CBRE

Vacancy and Rents: Vacancy fell to 6,23%, with even lower availability in the CBD. Prime rents rose to €31–32/sqm/month. Inner-city rents ranged €19–20 and outer zones €15.50–16.50. Average rent increased to €17.15/sqm/month (+2.5% YoY). Investment volumes reached €242 million in Q1, with yields stable at 5.50%.

Figure 21: Prime Headline Rent in EUR against Vacancy in %



Source: KF Research & Prague research Forum

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